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Symposium on Public and Private Unionization

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The past few years have witnessed a divergence between rates of unionization in the private economy and the public sector. Union membership as a proportion of total employment has declined significantly in the private sector, while unionization of workers in the public sector has increased rather significantly. Although valid for the United States, the pattern does not hold internationally. A number of authors have pointed out that Canada, for example, which has a similar industrial structure to the United States (indeed, many of the same firms), has experienced an increase in unionization in the private sector. Even in the United Kingdom, where rates have declined recently, unionization grew during the 1970s. In the two papers that follow, the authors address the changes in unionization and attempt to explain the changes.

Melvin Reder argues that all time periods cannot be explained by the same mechanism. His explanation of private sector unionism emphasizes general economic conditions. He argues that when economic conditions are favorable and unemployment rates are low, unionization increases. Stagnant economies and declining ones are characterized by reductions in unionization. He admits to being unable to explain the experience of the 1930s in this way, and resorts to other explanations. Richard Freeman, on the other hand, explains the recent decline in unionization rates by arguing that employers have taken a more aggressive stand against unions. One of the best pieces of evidence for this hypothesis, Freeman claims, is the enormous increase in antiunion activity as measured by NLRB data on unfair labor practices. He discusses empirical evidence that suggests that the extent of management opposition substantially determines the outcomes of organizing campaigns. It is more difficult for the

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Freeman hypothesis to explain why management's anti union activity has increased over time and why it was not a force that was present in earlier periods.

Both authors agree that the role of laws and government regulations is large in explaining the rise in unionization in the public sector. Thus, the theories are bifurcated, and there is no common explanation for the decline of unionization in the private sector and the increase in the public sector.

As interesting as it is to explain the decline in unionization, it is also important to ask whether the changes are of any consequence. Suppose that the trend continues and private-sector unionization declines. Suppose further that unionization of the public sector increases. What will that mean to the nature of industrial relations in this country and, more generally, to the average level of productivity? Obviously that question is too big to answer in a few paragraphs, but since neither author addresses these issues, I outline some of what is at stake.

First, it is reasonably well established that unions do create a positive wage differential between the union and nonunion sector. Even if wages were not raised on average as a result of organizing activity, the higher wages in the union sector cause a substitution effect: too much is produced by the nonunion firms and too little is produced by union firms. Additionally, union firms tend to have too high a capital/labor ratio, to mitigate the higher labor costs imposed by having to pay union wage rates. If unionization is not neutral across the economy, then too few union products are sold relative to nonunion products. A decline in unionization rates can reverse this phenomenon as long as two things are true. First, the decline must not be so lopsided so that interproduct distortions are increased rather than decreased as a result of a decline. Second, the decline in unionization must not occur because wage differentials have become even more pronounced. In particular, if the decline in private-sector unionization is the result of increased wage pressure by unions, which effectively drives union firms under relative to nonunion firms, then distortions may get worse rather than better as one observes union rates declining. This point bears some clarification.

If Reder is correct and changes in private sector unionization result from differences in overall economic conditions, then reductions in unionization rates will be associated with lower wage differentials between union and nonunion workers. Economic distortions will decline as a result of the fall in unionization rates. But if Freeman is correct, it is necessary to inquire why anti union pressure has increased. One possibility is that unions have become more aggressive in seeking wage gains. If the unions are successful in raising wage differentials, then distortions may get worse and the decline in unionization would be merely one reflection of that phenomenon.

There is one wrinkle, a point that was made many years ago and that has become even clearer in the context of the contract literature. Higher wages do not necessarily lead to a distortion in factor utilization rates. As long as unions can bargain over employment as well as wages, it is possible that the outcome of the bargaining process results in having the efficient amount of labor employed. Since points on the efficiency frontier dominate inefficient points, if a sufficiently rich set of transfer mechanisms exists, then union workers and firms can be made better off by adopting efficient factor choices. It is much less likely that efficiency is obtained in the product markets, however. For this to ensue, a central planner would have to allocate goods independent of prices.

The point suggests that changes in unionization rates have different effects in the private economy than they do in the public sector. First of all, the public sector faces little or no competitive pressure in the product market. Even those goods that do have their private-sector counterparts need not be priced by the public sector so as to cover costs of production. For example, a city may offer a recreational facility at a price that is competitive with the one charged by a private club. Even if the city is at a cost disadvantage, the city makes up the deficit by levying taxes on its residents. Under certain circumstances, no distortion is created and the city merely acts as an agent that transfers money from its citizens as a whole to city employees. Public schools that must compete with private schools are perhaps a more important example. School districts rely on general sources of funds, rather than student tuition, to support education that is provided at zero price. But teachers must be paid as much, often more, than those who teach at private schools.

Even in factor markets the public sector can act in a noncompetitive way. Although governments must buy their labor in competitive labor markets, the lack of a profit constraint allows the government to adopt any factor mix that it chooses. Again, the government could, by choice, adopt the efficient factor mix and merely decide to transfer resources from the public at large to government workers. Thus the growth of unionization in the public sector could, under ideal circumstances, imply no distortion and only transfers from one group of citizens to another.

Unions have effects on variables other than wages. At one extreme are notorious cases of featherbedding, where unions are able to require that inefficient production techniques are used. Unions have also been charged with hindering the efficient assignment of workers by using rigid seniority structures and inflexible promotion rules. Additionally, unions generally oppose giving employers discretion to pay according to performance because, unions argue, the power is exercised in an arbitrary fashion. Whether the decline in unionization will improve heavily unionized industry's international competitiveness as a result of the loosening of these restrictions remains to be seen. As Freeman points out, declining unionization in the private sector cannot be explained by looking at changing industrial composition, which might occur as unions priced certain industries out of the competition. However, it may be still be true that, within a given industry, nonunionized firms expand and unionized ones contract in response to international competition.

On the other side of the coin are the arguments by some that unions actually improve the productivity of firms. Unions set up grievance procedures and other internal organization devices that may facilitate industrial relations. As such, they can be thought of as an extension of the firm's personnel department. To the extent that the loss of unionization is not compensated for by other institutions that perform the same functions, productivity could actually decline. Again, however, if one believes that efficient arrangements can be made in the labor market, it is difficult to accept that employers and workers would not voluntarily set up the alternatives, since both sides could be made better off. Union advocates argue that firms oppose unions because setting up the institution that makes the firm productive also implies a rent transfer from stockholders to union members.

Understanding the source of the decline of private sector unions and concomitant rise of public sectors unions is essential. Without that knowledge, the welfare effects of the changes cannot be ascertained. The two essays that follow take us a long way down the road toward that understanding.

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